

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 3060 – SB 3601**

February 23, 2012

**SUMMARY OF BILL:** Authorizes franchise and excise tax credits to certain qualified small businesses equal to \$1,000 for each qualified small business job created, provided that the qualified small business creates at least five qualified small business jobs during the certification period. Tax credit eligibility requires such jobs be filled with “unemployed persons” defined as any person who has 20 weeks or more of unemployment benefits remaining as of the date of hire. Defines the terms “certification period”, “qualified small business”, and “qualified small business job”. Limits the amount of tax credits for any tax year to 40 percent of the taxpayer’s combined franchise and excise tax liability. Authorizes carry-forward provisions, up to 15 years, when authorized tax credits exceed a taxpayer’s total liability. Establishes the application process to determine eligibility.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$1,020,200**

**Decrease State Expenditures - \$563,100/Unemployment Insurance Trust Fund**

**Increase Local Revenue – \$26,100**

**Assumptions:**

- Based on information provided by the Department of Revenue, and based on the National Small Business Association 2011 Year-End Economic Report, small business owners are expected to increase hiring over the next 12 months.
- Approximately 4,810 new jobs are expected to be created over the next 12 months by qualified small businesses. This estimate is based on the assumption that 9,623 qualified small businesses in Tennessee would have the potential to increase employment, and that 10 percent (or 962) have the potential to employ five additional individuals.
- Seventy-five percent of new jobs created (or 3,608) will be jobs considered qualified small business jobs as defined by the bill; the remaining 25 percent (or 1,202) will not meet all criteria required to be considered a qualified small business job (this assumes these new jobs will be part-time jobs that do not meet the weekly-hour threshold requirement specified in the bill).

- Thirty percent of new jobs considered qualified small business jobs (or 1,082) are filled with persons meeting the definition of unemployed person (this assumes the percentage of qualified small business jobs filled by unemployed persons with 20 or more weeks of remaining unemployment benefits will be considerably less than the percentage of qualified small business jobs that will be filled by individuals with less than 20 weeks of remaining unemployment benefits); therefore, the remaining 70 percent (or 2,526) are filled with persons that do not meet the definition of unemployed person (this assumes the percentage of qualified small business jobs filled by individuals with less than 20 weeks of remaining unemployment benefits will be considerably more than the percentage of qualified small business jobs that will be filled by unemployed persons with 20 or more weeks of remaining unemployment benefits).
- Of the 1,082 new positions that will be considered qualified small business jobs and filled by individuals considered unemployed persons, approximately 10 percent (or 108) will be filled as a direct result of this bill (this assumes that the tax credit incentive for the taxpayer outweighs any disincentive of additional labor costs that will be incurred by the taxpayer or any other factors); therefore, the remaining 90 percent (or 974) will be created in the absence of the bill (this assumes that improving market conditions and new business opportunities is the exclusive driving factor behind these new jobs being created).
- The number of new jobs created each year for which the proposed tax credits will apply is estimated to be 1,082. Therefore, the recurring decrease in state revenue is estimated to be \$1,082,000 (1,082 jobs x \$1,000 tax credit).
- The average annual wage for each of the new qualified jobs is estimated to be \$19,500 (\$10.00 per hour x 37.5 weekly hours x 52 weeks).
- The net increase in disposable income for each of the 108 jobs created as a result of this bill equals the average annual wage received from the new job less any unemployment benefits the individual would have received in the absence of the bill.
- Based on information provided below concerning average unemployment benefits, the recurring increase in disposable income for the 108 jobs created as a result of this bill is estimated to be \$14,286 [\$19,500 – (\$237 x 22 weeks)].
- Incremental sales tax revenue will be generated from net increase in disposable income for the 108 new jobs created as a direct result of this bill; there will be no incremental sales tax revenue generated from the 974 new jobs created due to improving market conditions because these jobs are assumed to occur in the absence of the bill.
- Sixty percent of the disposable income increase will be spent on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring increase in state sales tax revenue is estimated to be \$64,801 (108 jobs x \$14,286 x 60.0% x 7.0%).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of state sales tax revenue as state-shared sales tax revenue.
- The recurring increase in state-shared sales tax revenue apportioned to local governments is estimated to be \$2,976 (\$64,801 x 4.5925%).
- The net recurring increase in state sales tax revenue retained by the state is estimated to be \$61,825 (\$64,801 - \$2,976).

- The total net recurring decrease in state revenue as a result of the bill is estimated to be \$1,020,175 (\$1,082,000 - \$61,825).
- The total recurring increase in local government revenue is estimated to be \$26,119 [ $\$2,976 + (108 \text{ jobs} \times \$14,286 \times 60.0\% \times 2.5\%)$ ].
- Average unemployment benefits paid for December 2011 were approximately \$237 per week.
- The average number of remaining weeks of unemployment benefits for the 108 positions created as a direct result of this bill is estimated to be 22.
- The recurring decrease in state expenditures from the Unemployment Insurance Trust Fund occurring as a direct result of this bill is estimated to be \$563,112 (108 jobs x \$237.00 x 22 weeks); any decrease in state expenditures from the Unemployment Insurance Trust Fund for the remaining 974 jobs considered qualified small business jobs filled by unemployed persons as defined by the bill is considered not significant because these jobs are assumed to occur in the absence of the bill.

### **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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